

Message Text

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ACTION EUR-12

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FM AMEMBASSY ROME
TO SECSTATE WASHDC 5266
TREASURY DEPT WASHDC

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PASS FRB

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TAGS: EFIN, IT
SUBJ: BANK OF ITALY (BOI) LOWERS DISCOUNT RATE AND TREASURY
ANNOUNCES ISSUE OF 2-YEAR VARIABLE RATE NOTES

REF: A. ROME 8942
B. ROME 9061

1. EFFECTIVE JUNE 13, THE BANK OF ITALY (BOI) REDUCED THE
DISCOUNT RATE (THE RATE AT WHICH COMMERCIAL BANKS MAY
BORROW FROM THE CENTRAL BANK) TO 13 PERCENT FROM 15
PERCENT. AT A PRESS CONFERENCE HELD BY TREASURY MINISTER
STAMMATI AND BOI GOVERNOR BAFFI ON JUNE 11, STAMMATI STATED THAT
THE DECISION TO LOWER THE RATE WAS BASED ON THE SLOWING
OF THE INFLATION RATE AND FAVORABLE BALANCE OF PAYMENTS
DEVELOPMENTS DURING THE LAST TWO MONTHS (REFTEL A).
STAMMATI ALSO ANNOUNCED AN ISSUE OF A NEW TYPE OF TREASURY
SECURITY WITH "ATTRACTIVE FEATURE OF A VARIABLE
YIELD." THESE NEW SECURITIES WILL HAVE A TOTAL TERM OF
2 YEARS AND PAY A DIVIDEND EVERY 6 MONTHS AT A RATE
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EQUAL TO THE AVERAGE YIELD ON TREASURY BILLS AT THE
THREE REGULAR MONTHLY AUCTIONS IN THE THIRD QUARTER PRECEDING.
THEY WILL, MOREOVER, GUARANTEE A MINIMUM 6 MONTHS RATE OF 7
PERCENT. STAMMATI STATED THAT THIS NEW TYPE OF VARIABLE RATE
SECURITY WAS CREATED TO START THE PROCESS OF LENGTHENING
THE AVERAGE MATURITY OF THE PUBLIC DEBT, AFTER A LONG
PERIOD OF BORROWING EXCLUSIVELY SHORT-TERM. THE FIRST

ISSUE OF THESE NEW SECURITIES WILL BE IN THE AMOUNT OF 1,000 BILLION LIRE. ITS FIRST DIVIDEND, DUE IN JANUARY 1978, WILL REPRESENT AN ANNUAL COMPOUND RATE OF 16.27 PERCENT, I.E., THE AVERAGE RATE AT THE APRIL, MAY, JUNE 1977 AUCTIONS.

2. THE DECISIONS TO LOWER THE DISCOUNT RATE COMES AFTER A PERIOD OF GRADUALLY DECLINING SHORT-TERM INTEREST RATES (SINCE THE BEGINNING OF THIS YEAR), ENCOURAGING WHOLESALE PRICE DEVELOPMENTS IN MARCH AND APRIL, AND A STABLE LIRA ON INCREASING OFFICIAL FOREIGN EXCHANGE RESERVES (THE PRESS HAS REPORTED THAT RESERVES ROSE OVER A BILLION DOLLARS IN MAY). THE DISCOUNT RATE WAS LAST RAISED IN OCTOBER 1976 (TO 15 FROM 12 PERCENT) AS PART OF A PACKAGE OF EMERGENCY MEASURES TO STABILIZE THE LIRA.

3. GOVERNOR BAFFI IN HIS MAY 31 ADDRESS TO THE BOI ANNUAL MEETING (REFTEL B) CITED THE RIGIDITY IN THE LONG-TERM CREDIT MARKET IN FACE OF CHANGING INFLATION RATES AS KEEPING LONGER TERM RATES GENERALLY BELOW SHORT-TERM RATES AND LESS THAN THE RATE OF INFLATION. SAVERS AND INVESTORS HAVE THEREFORE HAD NO INCENTIVE TO PURCHASE LONGER-TERM SECURITIES. TREASURY BILL RATES, ON THE OTHER HAND, HAVE PROVED TO BE QUITE SENSITIVE TO CHANGES IN THE RATE OF INFLATION, AND THE NEW TREASURY SECURITIES, WITH YIELDS TIED TO THE TREASURY BILL RATE, SHOULD SHIFT A PORTION OF SAVINGS NOW BEING INVESTED IN TREASURY BILLS (AVAILABLE IN 3,6, AND 12 MONTHS MATURITIES) INTO THE NEW 2-YEAR SECURITY.

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4. THE DISCOUNT RATE REDUCTION HAS DRAWN ATTENTION TO THE ISSUE OF THE HIGH COST OF CREDIT IN ITALY AND THE PROSPECTS FOR THE LOWERING OF INTEREST ON BANK LOANS. THE PRIME RATE HAS BEEN ABOUT 20 PERCENT SINCE LAST SUMMER; AT PRESENT HOWEVER, THE KEY FACTOR DETERMINING THE ALLOCATION OF CREDIT TO ITALIAN FIRMS IS THE SYSTEM OF CEILINGS ON THE EXPANSION OF BANK LENDING, NOT THE INTEREST RATE. GARDNER

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Message Attributes

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Control Number: n/a
Copy: SINGLE
Sent Date: 13-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition History: n/a
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